

ENVIRONMENTAL FINANCIAL ADVISORY BOARD

Members

JAN 5 2007

A. James Barnes, Chair

Terry Agriss

Julie Belaga

John Boland

George Butcher

Donald Correll

Michael Curley

Rachel Deming

Pete Domenici

Kelly Downard

Mary Francoeur

Vincent Glrardy

Steve Grossman

Jennifer Hernandez

Kelth Hinds

Steve Mahfood

Langdon Marsh

Greg Mason

Cherie Rice

Helen Sahi

Andrew Sawyers

Jim Smith

Greg Swartz

Sonia Toledo

Jim Tozzi

Billy Turner

Justin Wilson

John Wise

*Stan Melburg
Designated
Federal Official*

Honorable Stephen L. Johnson
Administrator
United States Environmental Protection Agency
1200 Pennsylvania Ave., N.W.
Washington, D.C. 20460

Dear Administrator Johnson:

The Environmental Financial Advisory Board (EFAB) has created a workgroup on Non-Point Source to address issues concerning the local capacity to finance projects and actions needed to implement watershed plans, including Total Maximum Daily Loads (TMDLs), especially where Federal or State funding is not available. The workgroup held a roundtable on a variety of issues on March 9, 2006 in Washington, D.C., funded by EPA's Office of the Chief Financial Officers and the Office of Wetlands, Oceans and Watersheds. Enclosed is EFAB's report summarizing the roundtable and providing recommendations for enhancing sustainable watershed finance.

Commendably, EPA has taken a watershed approach to many of its programs including planning, infrastructure and public education and information. It has assisted thousands of watershed groups to develop plans and implement projects. It has created programs such as the Targeted Watershed Grants program to demonstrate important watershed-wide tools such as water quality trading. It has made the watershed approach one of the pillars of its Sustainable Finance initiative.

EFAB believes that it also makes sense to address financing issues on a watershed basis, to take advantage of trading and other opportunities and to focus on the most important priorities to achieve improved water quality, whether through traditional infrastructure or improvements to address stormwater or other nonpoint sources.

Most watersheds that have undertaken planning to meet water quality, habitat, and other goals face daunting challenges in financing both infrastructure and other projects and actions needed to achieve goals in a reasonable time frame. Federal, State, and traditional local funds are usually adequate to cover only the most urgent priorities and sometimes not even all of those.

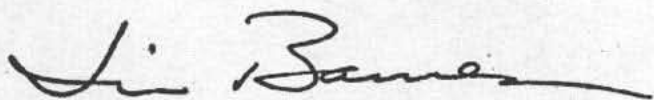
The report takes that view that, while there are no easy choices, there are a number of current and developing innovative finance tools that may be used to help fill the gap that watersheds face. Some of the tools are well established, such water and sewer rate increases and special districts for flood control and management of septic tanks and stormwater. Others are innovations such as special purpose financing as in Maryland's Bay Restoration Fund and transfer of development rights. Potential future tools include payments for and markets in ecosystem and other intergenerational services.

Critical to the success of any whole watershed financing mechanism will be the choice of the right collaborative governance approach to reach agreement across multiple jurisdictions and among government, business, utility, nonprofit and citizen organizations on the best mix of finance tools to implement the watershed plan or other needed projects. The report recommends that EPA strongly encourage the use of collaborative approaches to achieving sustainable watershed finance and educate potential participants in their use.

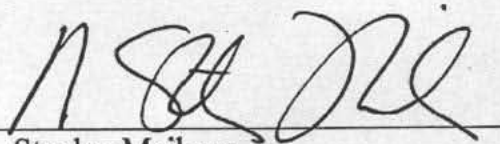
The recommendations contained in the report urge EPA to further knowledge and development of whole watershed sustainable finance approaches. In particular, the report urges EPA to assist in the development and dissemination of innovative finance mechanisms, collaborative governance approaches, ecosystem services markets and appropriate watershed-wide implementing entities. To demonstrate some of these recommendations, we recommend that EPA assist in funding one or more demonstration projects that use a collaborative governance approach to implement one or more innovative financing mechanisms.

We thank you for the opportunity to present these recommendations and look forward to your response. We will be glad to answer questions or do further work as you may request.

Sincerely,



A. James Barnes
Chair



A. Stanley Meiburg
Designated Federal Official

Enclosure

cc: Ben Grumbles, Assistant Administrator for Water
Lyons Gray, Chief Financial Officer